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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

11/K
6/2

For quarter ended April 30, 1992 Commission File Number 0-5622

PUROFLOW INCORPORATED
(Exact name of registrant as specified in its charter)

DELAWARE	13-1947195
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1631 Tenth Street, Santa Monica, California	90404
(Address of executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 450-6461

Securities registered pursuant to Section 12(g) of the Act:

Common Stock	Shares Outstanding
Common Stock, $0.06-2/3 Par Value	3,302,180

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X
No

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ITEM 1. FINANCIAL INFORMATION

Puroflow Incorporated

CONSOLIDATED BALANCE SHEETS

	April 30, 1992	January 31, 1992
ASSETS		
CURRENT ASSETS:		
Cash	$ 84,974	$ 497,203
Accounts receivable		
Trade, net of allowance for doubtful accounts of $141,196 at April 30, 1992 and $133,600 at January 31, 1991	2,431,961	2,864,071
Advances to officers and employees	11,588	10,128
Inventories	3,505,410	3,097,290
Prepaid expenses and other	364,087	252,331
Income taxes receivable	418,274	
Deferred income taxes	158,385	158,385
Total current assets	6,974,699	6,879,408
NET ASSETS AND LIABILITIES OF DISPOSED SEGMENT	133,785	133,785
PROPERTY AND EQUIPMENT - NET	1,470,067	1,394,362
TOTAL ASSETS	$8,578,551	$8,407,555

	April 30, 1992	January 31, 1992
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$1,200,000	$ 900,000
Accounts payable	987,317	1,391,464
Accrued expenses	402,597	392,120
Income taxes payable		444,919
Current portion of long-term debt	417,666	412,589
Total current liabilities	3,007,580	3,541,092
DEFERRED INCOME TAXES	85,141	85,141
LONG-TERM DEBT	1,008,060	1,109,477
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $.10 per share Authorized - 500,000 shares, Issue - None		
Common stock, par value $.06-2/3 per share Authorized - 6,000,000 shares: Outstanding - 3,302,180 at April 30, 1992 and 3,166,830 at January 31, 1992	320,154	311,126
Additional paid in capital	1,960,123	1,288,807
Retained earnings	2,287,493	2,161,912
	4,567,770	3,761,845
Less stock subscriptions receivable	(90,000)	(90,000)
TOTAL STOCKHOLDERS' EQUITY	4,477,770	3,671,845
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,578,551	$8,407,555

See accompanying notes to the consolidated financial statements.

Puroflow Incorporated

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Quarter Ended April 30,	
	1992	1991
Net Sales	$ 2,451,329	$ 2,941,934
Cost of goods sold	1,663,466	1,961,173
Gross profit	787,863	980,761
Selling, general and administrative expense	533,089	589,933
Operating income	254,774	390,828
Other income and expense:		
Other income	2,784	2,525
Interest expense	<48,277>	<53,210>
Net income before provision for income taxes	209,281	340,143
Provision for income taxes	83,700	135,200
Net income	$ 125,581	$ 204,943
Net income per common share	$ .04	$ .06

Pureflow Incorporated

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Quarter Ended April 30,	
	1992	1991
Cash flows from operating activities:		
Net income	$ 125,581	$ 204,943
Adjustments to reconcile net income to net cash used in continuing operations:		
Depreciation and amortization	50,250	37,074
Provision for losses on accounts receivable	6,000	6,000
Gain on sale of equipment	<2,000>	
Changes in operating assets and liabilities:		
Accounts receivable	426,090	310,216
Inventories	<408,120>	26,677
Prepaid expenses and other	<96,975>	<32,750>
Accounts payable and accrued expenses	<395,670>	<522,632>
Income taxes payable	<297,100>	<107,130>
Net cash used in continuing operations	<589,944>	<77,602>
Cash flows from investing activities:		
Purchases of property and equipment	<125,955>	<40,125>
Proceeds from disposal of plant and equipment	2,000	
Net cash used in investing activities	<123,955>	<40,125>
Cash flows from financing operations:		
Proceeds from exercise of stock options	114,251	43,749
Deferred offering costs	<14,781>	
Net borrowings (repayments) under note payable to bank	300,000	<200,000>
Principal payments of long-term debt	<96,360>	<95,953>
Advances to officers and employees	<1,460>	<6,276>
Net cash provided by (used in) financing activities	301,670	<258,480>
Net decrease in cash	<412,229>	<376,207>
Cash at beginning of period	497,203	812,155
Cash at end of period	$ 84,974	$ 435,948
Supplemental disclosures of cash flow information:		
Interest paid	$ 46,799	$ 67,707
Income taxes paid	380,800	242,330
Noncash transactions:		
Tax benefits related to the exercise of nonqualified stock options	566,093	
Capital lease obligations		75,358

See accompanying notes to the consolidated financial statements.

Puroflow Incorporated

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1992 and January 31, 1992

NOTE A -BASIS OF PRESENTATION

The information presented for the three months ended April 30, 1992 and 1991 has not been audited by independent accountants, but includes all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the results for such periods.

The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's January 31, 1992 Annual Report on Form 10-K.

The results of operations for the three months ended April 30, 1992 are not necessarily indicative of the results to be expected for the year ended January 31, 1993.

NOTE B - INVENTORIES

Inventories consist of the following:

	April 30, 1992	January 31, 1992
Raw materials and purchased parts	$ 1,842,418	$ 1,851,856
Work in process	1,300,459	996,319
Finished goods	362,533	249,115
Total	$ 3,505,410	$ 3,097,290

NOTE C - NET INCOME PER SHARE

The computation of net income per common share is based on the weighted average number of shares outstanding, including the effect of common stock equivalents (common stock options). The weighted average shares outstanding were 3,405,790 and 3,331,780 shares during the quarter ended April 30, 1992 and the quarter ended April 30, 1991, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Results of Operations

The registrant's principal products consist of automotive airbag filters, ultraviolet water purification products, high performance filters, and fluid control valves. The following table reflects the percentage relationship to net sales of certain items included in the Company's statements of operations for the quarters ended April 30, 1992 and 1991.

	Quarter Ended April 30,	
	1992	1991
Net Sales	100.0%	100.0%
Cost and Expenses:		
Cost of goods sold	67.9	66.7
Selling, general, and administrative	21.7	20.1
Interest expense - net	1.9	1.7
Income from continuing operations before income taxes	8.5	11.5
Provision for income taxes	3.4	4.6
Income from continuing operations	5.1%	6.9%

Comparison of First Quarters ended April 30, 1992 and 1991.

Net sales decreased to $2,451,000, a decrease of 16.7% compared to $2,942,000 in the first quarter of fiscal 1991. The decrease resulted primarily from a temporary decline in airbag filter revenues resulting from the customer's transition to a new model of airbag filters designed and manufactured by the Company and a decrease in sales of high performance filters and fluid control valves. Sales of airbag filters decreased by approximately $257,000 or 29.8% from the prior year's first quarter. Sales of high performance filters decreased by $115,000, representing a decline of 10.4% from the first quarter of fiscal 1991 due to generally lower demand for filters while sales of fluid control valves decreased by $143,000 or 33.9% as compared to the first quarter of fiscal 1991. The Company expects sales of high performance filters to benefit from the acquisition of inventory and certain additional assets of Michigan Dynamics, Inc. (MDI) completed in June 1992. Sales of water purification products increased by approximately $24,000 or 4.3% over the prior year's first quarter.

Gross profit as a percentage of sales decreased by 1.2% for quarter 1992 from 33.3% for quarter 1991. This decrease was the result of changes in product mix from the prior period, with lower margins experienced on sales of certain filter and water purification products.

Selling, general and administrative expenses were $533,000 for quarter 1992 and $590,000 for the quarter ended April 30, 1991, representing a decrease of 9.7%, but an increase as a percentage of net sales from 20.1% to 21.7%. The decrease was primarily due to expenses associated with decreased sales volume.

Liquidity and Capital Resources

The Company has financed its recent growth primarily through profitable operations and borrowings.

As of April 30, 1992, working capital increased to $3,967,000 from $3,338,000 at April 30, 1991, due primarily to income from continuing operations and income tax benefits of approximately $566,000 resulting from the exercise of non-qualified stock options. The Company's current ratio was 2.4 to 1 at April 30, 1992 and 1.9 to 1 at April 30, 1991.

The Company's long-term debt at May 31, 1992, including the current portion thereof, was $1,416,000, consisting of notes payable to the Company's bank, due July 5, 1995 or thereafter in the amount of $1,340,000 under a term loan with its bank and capitalized lease obligations. Principal under the Company's term loans accrue interest at the bank's prime rate plus 1.25% (7.75% at May 31, 1992) and are secured by accounts receivable, inventories, equipment purchased with the loan proceeds and all other unencumbered assets of the Company. The terms of the agreements contain certain restrictive covenants including maintenance of minimum working capital, net worth, and ratios of current assets to current liabilities and debt to net worth.

The Company has a revolving line of credit with its bank under which it may borrow up to $1,500,000 through June 4, 1993. Outstanding balances accrue interest at the bank's prime rate plus 1.0% (7.5% at May 31, 1992). The line is also collateralized by accounts receivable, inventories and all other unencumbered assets of the Company. The terms of the agreement contain certain restrictive covenants including maintenance of minimum working capital, net worth, and ratios of current assets to current liabilities and debt to net worth. The Company had an outstanding balance of $1,425,000 under this agreement at May 31, 1992.

In June 1992, the bank granted an additional $1,000,000 five year term loan, with interest at the bank's prime rate plus 1.25%, for the recently completed purchase of inventory, certain equipment, and intangibles of a company (MDI) that had previously filed for protection under the U.S. bankruptcy laws. MDI was a manufacturer of high performance filters, chemical process filter systems, and filter elements. In connection with the purchase, the MDI facility was closed and its inventory and certain equipment are being shipped to the Company's facilities in Santa Monica, California.

Management may consider additional acquisitions of business and product lines in the future to enhance the Company's current operations. The Company may use existing funds, earnings from operations, proceeds of the Proposed Offering, if consummated, bank borrowings and other methods of financing in order to finance any such acquisitions.

The Company believes that its existing working capital together with anticipated cash from operations and borrowings under its bank arrangements will be sufficient to meet its working capital needs for the next twelve months.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEELINGS

In May 1992, the Company commenced an action in Superior Court of the State of California, Los Angeles County, against Micro-Numerics, Inc., a former subcontractor and sublessee of a portion of the Company's leased facility, and its principal, Louis Ravay. The Company is seeking a writ of possession for the return of four wire-winding machines used to assemble airbag filters which were being fabricated by the defendants for the Company (to supplement the four machines which have been, and currently are being, operated by the Company) as well as general damages. The court has entered a temporary restraining order against the defendants to prevent the destruction or sales of the machines which are the subject of the dispute. Micro-Numerics has filed a separate complaint against the Company, its chief executive officer and another Company employee seeking payment of $67,600 allegedly due from the Company under subcontract purchase orders, as well as compensatory and punitive damages related to the Company's alleged unlawful entry onto Micro-Numerics' premises and related injunctive relief. The Company intends to vigorously pursue its rights in these actions.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Acquisition of Assets

On June 4, 1992, the Company concluded the acquisition of certain of the assets of Michigan Dynamics, Inc. ("MDI"), a company primarily engaged in manufacturing, distributing and selling high performance filters and chemical process filters and systems. The acquisition was consummated pursuant to an Order by the United States Bankruptcy Court for the Eastern District of Michigan, Southern Division, dated as of June 4, 1992, approving the acquisition pursuant to the Asset Purchase Agreement dated as of April 30, 1992 (the "Agreement"). The Agreement was executed by the Company and MDI and consented to by MDI's parent, Fuji Filter Manufacturing Co., Ltd. ("Fuji Filter") and MDI's senior secured creditor, NBD Bank, N.A., following the filing by MDI of a voluntary bankruptcy petition under Chapter 11 of the United States Bankruptcy Code on April 15, 1992. All descriptions contained herein of transactions between the Company and third parties and the agreements relating thereto are qualified in their entirety by the text of the agreements attached hereto as exhibits. The principal assets acquired by the company consists of certain intangible assets (such as customer lists, ongoing contracts and purchase orders, and trade names), all the inventory of MDI and certain specialized machinery and equipment.

Pursuant to the Agreement, the Company made a cash payment to MDI of $960,200 (subject to downward adjustment of up to $10,000 under certain circumstances). In addition, in order to obtain the benefit of certain contracts (the "Contracts"), the Company may be required to pay cure costs (not to exceed 4% of the purchase price, as adjusted) in respect of past defaults under the Contracts existing on the date of closing (the "Cure Costs") and to assume MDI's obligations under the contracts (the "Contract Obligations"). The Company is not assuming any liabilities of MDI, other than the Cure Costs and the Contract Obligations, and has not acquired any of the facilities or employees of MDI under the terms of the Agreement. Prior to the consummation of the acquisition, the Company agreed to perform under certain Contracts for MDI as a subcontractor, and in return for such services MDI assigned to the Company the accounts receivable generated by the Company under the subcontract arrangements. The Company advanced approximately $22,000 to MDI to permit MDI to perform under certain other contracts and to generate new contracts; these advances are not subject to repayment.

The Agreement also provides that the Company and Fuji Filter may enter into an agreement pursuant to which the Company will be Fuji Filter's exclusive agent in the United States for products manufactured or distributed by Fuji Filter which are competitive with MDI's product lines.

As a separate matter and not as a condition to closing, the Company entered into a two-year employment agreement dated May 18, 1992 with Joseph B. Jasso, President of MDI, commencing June 8, 1992.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

The following document is filed as an exhibit in response to Item 14(C), as exhibit required by Item 601 of regulation S-K.

Exhibit Number

10.20 Asset purchase agreement dated as of April 30, 1992 among the company, Michigan Dynamics, Inc. and consented and agreed to by Fuji Filter Manufacturing Co., LTD and consented to by NBD Bank, N.A.[1]

10.21 Employment agreement dated May 18, 1992 between the Registrant and Joseph B. Jasso.

B. Reports on Form 8-K

The information required is hereby incorporated by reference to the Form 8-K dated April 6, 1992 filed with the securities and exchange commission reporting the retirement after 30 years of service of an Officer and Vice Chairman of the Board of Directors of the Registrant.

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[1] Incorporated by reference to the Company's registration statement on Form S-1, Amendment No. 1, filed with the Securities and Exchange Commission on May 13, 1992, Registration No. 33-43228.

EXHIBIT 10.21

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into as of the 18th day of May, 1992, by and between Puroflow Incorporated, a Delaware corporation (the "Company"), and Joseph B. Jasso ("Employee"). In consideration of the terms, conditions and covenants contained herein, the parties hereto agree as follows:

1. Definitions. Unless the context otherwise requires, all capitalized terms not otherwise defined herein have the meanings set forth in the Asset Purchase Agreement dated as of April 30, 1992, by and among the Company and Michigan Dynamics, Inc., a Michigan corporation and debtor-in-possession ("MDI"), and consented and agreed to by Fuji Filter Manufacturing Co., Ltd., a corporation organized under the laws of Japan, and consented to by NBD Bank, N.A., a national banking association (the "Asset Purchase Agreement"), pursuant to which the Company is to acquire certain assets of MDI.

2. Term. The Company hereby agrees to employ Employee, and Employee hereby agrees to accept such employment, on the terms and conditions hereinafter set forth. The term of this Agreement shall commence on the Closing Date and continue until the second anniversary thereof (the "Second Anniversary Date"), and shall thereafter be automatically renewed for successive one-year periods unless terminated by written notice given by either party not less than 60 days prior to the Second Anniversary Date or any successive anniversary date thereafter, and in each case, unless sooner terminated as hereinafter provided (the period Employee actually renders services to the Company hereunder is referred to herein as the "Term").

3. Services and Duties. Employee shall serve as President of the Aerospace Division and be subject to the supervision and direction of the Company's Chief Executive Officer (the "CEO") and Board of Directors (the "Board"). The Aerospace Division shall initially be responsible for the operation of substantially all of the Purchased Assets other than the Purchased Assets related to the production of chemical process/polymer systems and filter elements, but may thereafter become responsible for additional or fewer product lines and may conduct other business on behalf of the Company. The Company agrees that the Aerospace Division shall receive no less support (in terms of space, labor, access to raw materials, etc.) than other similarly-situated divisions or subsidiaries of the Company, taking into account the respective operations of such divisions or subsidiaries. Employee shall also serve, for no additional compensation, in such additional capacities for the Company and its affiliates (each of which shall be commensurate with Employee's experience

and seniority) as the Board shall determine. Employee shall diligently perform all acts that are customary or appropriate for such positions, and all other acts as may be reasonably requested by the CEO or the Board or persons acting on his or its behalf. Employee will devote his full time and exclusive attention to, and use his best efforts to advance, the business and welfare of the Company. Employee shall not, during the term of this Agreement, engage in any other employment or any non-passive investment activities for any direct or indirect remuneration without the written approval of the Board or in any activity inconsistent with the best interests of the Company.

4. Compensation.

(a) Base Salary. During the Term, the Company shall pay Employee a base salary at the annual rate of $83,200, payable in equal semi-monthly installments. Employee's salary shall be subject to review by the Board each year during the Term, in accordance with the Company's normal salary review policies.

(b) Incentive Compensation. Employee shall be entitled to receive such discretionary bonus compensation based upon his performance as the Board may from time to time determine in its sole discretion. It is understood by Employee that the payment of such discretionary bonus compensation shall be dependent upon the Aerospace Division achieving earnings before interest and taxes during such year equal to or greater than the amounts set forth on the line entitled "Operating Income" on Exhibit A attached hereto. (Exhibit A, as it may be amended from time to time hereafter in accordance with this Section 4(b), is referred to herein as the "Budget.") If in Employee's reasonable opinion, the operations of the Aerospace Division materially change as a result of the addition or deletion of additional product lines or businesses therefrom, Employee shall produce a revised Budget which shall cover the next succeeding three years and deliver it to the CEO. Employee shall also produce a revised Budget at the request of the CEO or the Board in the event that either or both of them shall determine that the operations of the Aerospace Division have materially changed. Each of the Company and Employee agree to negotiate in good faith to reach agreement as to a revised Budget whenever required to do so hereunder. Once a revised Budget has been agreed to between Employee and the CEO or Board, Employee's discretionary bonus compensation shall be determined with reference to such revised Budget. The bonus compensation, if any, shall be due and payable to Employee not later than thirty days after the date that final audited financial statements are available with respect to the Company's fiscal year then ended, beginning with the year ending January 31, 1993.

(c) Sale of the Company. In the event of a Sale of the Company (as hereinafter defined) and the termination of Employee's employment hereunder by the Company solely as a result

EXHIBIT

thereof, the Company shall continue to pay Employee 85% of his base salary, in the installments set forth in Section 4(a), until the earlier of: (i) the first anniversary of Employee's termination (unless the Sale of the Company and Employee's resulting termination occur less than one year after the Closing Date, in which case this clause (i) shall be deemed to read "the Second Anniversary Date"); and (ii) the date upon which Employee commences other employment or conducting a new business or venture. In addition, the amount of any declared but unpaid bonus compensation shall be paid to Employee on the date of such termination. For the purposes of this Agreement, the term "Sale of the Company" shall mean a sale of all or substantially all of the Company's assets (as determined on a consolidated basis), or a sale of all of the Company's common stock (by merger or otherwise), other than in connection with a corporate reorganization.

(d) Taxes. Any and all sums payable hereunder to Employee may be subject to all federal, state and municipal laws or government regulations now or hereafter in existence requiring withholding, deduction or payment therefrom of sums for income or other taxes payable by or assessable against Employee. The Company shall have the right to act thereon in accordance with its good faith interpretation of any such laws or regulations.

5. Other Benefits. Employee will be entitled to participate in the health and benefit programs that the Company generally makes available to its executive officers including without limitation group hospitalization, group disability, medical and dental plans, group life insurance and any applicable retirement programs. Subject to the Company obtaining the requisite approvals to increase the number of shares available under its Stock Option Plan (the "Plan"), Employee will also receive, as soon as practicable after commencement of the Term and on the first anniversary date of his employment hereunder, options granted under and in accordance with the Plan to purchase 10,000 shares of the Company's common stock at an exercise price equal to the fair market value of such shares on the date of grant. Such options shall expire five years after the date of grant or earlier in accordance with the Plan. The Company agrees to seek the requisite approvals to increase the number of shares available under the Plan so as to enable it to grant Employee the options to purchase 20,000 shares set forth herein. The Company reserves the right, but is under no obligation, to grant options to Employee to purchase shares of its common stock outside the Plan.

6. Business Expenses. The Company will reimburse Employee for his reasonable and necessary travel, entertainment, and other business expenses incurred in the course of performing his duties and obligations with respect to the business of the Company, in accordance with the then prevailing policy of the Company, which

shall include appropriate itemization and substantiation of expenses incurred.

7. Relocation Expenses. If the Company determines to relocate Employee to a business location beyond a 50-mile radius of Garden City, Michigan, the Company shall pay the reasonable moving costs for Employee and his spouse from Michigan to such new location, in an aggregate amount not to exceed $7,500.

8. Vacation. Employee shall be entitled to an annual vacation of four weeks in each calendar year during the Term. For the calendar year during which Employee's employment hereunder commences or terminates, Employee shall be entitled to such proportion of his annual vacation entitlement as the period of his employment for such year shall bear to one calendar year. Employee may not, without the written consent of the Company, carry forward any unused part of his vacation entitlement to a subsequent calendar year. Upon termination of Employee's employment hereunder, Employee shall be entitled to the cash equivalent of any accrued but unused vacation time, computed at his base salary rate. If Employee voluntarily terminates his employment hereunder or if Employee's employment is terminated for cause, Employee shall be required to repay to the Company any salary he received with respect to vacation taken in excess of his proportionate vacation entitlement as of the date of termination.

9. Automobile. During the term of this Agreement, the Company shall provide Employee with a car allowance of $500 per month. Employee shall be responsible for any and all federal, state or local income taxes or other governmental or regulatory charges imposed in connection with the automobile allowance provided under this Section 9. Employee shall pay all reasonable maintenance and repair expenses, insurance costs, personal property taxes and registration fees for such automobile.

10. Death or Disability of Employee.

(a) Death. In the event of the death of Employee during the Term, his employment hereunder shall terminate effective as of the date of Employee's death and the Company shall have no further obligations or liabilities hereunder, except that the Company shall pay (in addition to and without regard to any other benefits due under any insurance or other plan of the Company or other person or entity) to Employee's estate, (i) the pro rata portion, if any, of Employee's base salary and unused vacation time for the period up to the date of death which remains unpaid, (ii) any declared but unpaid bonus compensation which is an outstanding obligation of the Company on the date of Employee's death, and (iii) an amount equal to any unreimbursed business expenses incurred prior to Employee's death in accordance with Section 6.

(b) Disability. In the event of the Disability (as hereinafter defined) of Employee, the Company shall thereafter have the right to terminate Employee's services hereunder by giving the Employee written notice thereof and thereafter the Company shall have no further obligations or liabilities under this Agreement; provided, however, that during the period of Employee's Disability prior to the delivery of such notice, the Company shall pay to Employee his base salary, in the installments set forth in Section 4(a) hereof, but such installments shall be reduced by all amounts paid to Employee on account of disability or other insurance, worker's compensation, social security or other payments made to Employee arising out of his Disability; and provided further that, notwithstanding the foregoing, such payments by the Company shall cease prior to the delivery of such notice upon (i) the expiration of the Term pursuant to Section 2 hereof or (ii) the earlier termination of this Agreement pursuant to Sections 12 or 13 hereof. The term "Disability" when used herein, shall mean a mental or physical condition which renders Employee unable or incompetent to perform, on a full-time basis, all of the duties which he is required to perform under this Agreement for an aggregate of 60 days during any period of 150 days.

11. Covenants Against Competition.

(a) No Competing Employment. During the Term, Employee shall not, as the owner, individual proprietor, principal, partner, stockholder, officer, employee, independent contractor, consultant, director, joint venturer, investor, lender or in any other capacity whatsoever, alone or in association with any other person, carry on, be engaged or take part in, or render services to, own, share in the earnings of or invest in the stocks, bonds, or other securities of any entity engaging in the business of the Company; provided, however, that Employee may own, as an investor, securities of any person engaged in the business of the Company, so long as (i) the securities of such entity are registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended, and (ii) Employee, his affiliates and members of his family own in the aggregate not more than 5% of such entity's voting stock. Employee hereby acknowledges that any such breach or threatened breach of this covenant not to compete would cause the Company irrevocable harm. Therefore, in addition to any other remedies at law or equity available to the Company, the Company shall be entitled to apply for and obtain an injunction enjoining any breach or threatened breach by Employee of this Section 11(a), without posting bond.

(b) No Interference. During the Term, and for a period of two years thereafter, Employee shall not, whether for his own account or for the account of any other individual, partnership, firm, corporation or other business organization (other than the Company or its affiliates), solicit, endeavor to

entice away from the Company, or otherwise interfere with the relationship of the Company with any individual, partnership, firm, corporation or other business organization (i) which is employed at the time of termination or expiration of this Agreement by, or otherwise engaged to perform services for, the Company (including, but not limited to, any independent contractors or organizations) or (ii) which was employed by, or otherwise engaged to perform services for, the Company (including, but not limited to, any independent contractors or organizations) at any time during the three-year period immediately preceding the termination or expiration of this Agreement. This Section 11(b) shall survive any termination or expiration of this Agreement.

(c) Confidential Information. Employee shall keep secret and retain in the strictest confidence, shall not reveal, divulge or make known to any person, firm, corporation or other business organization (other than the Company and its affiliates), and shall not use for his benefit or the benefit of others, any secret, confidential or proprietary information of, used by or concerning the Company, its affiliates or MDI, acquired or learned by him heretofore or hereafter, including, without limitation, creative ideas, "know-how," trade secrets, customer lists, details of customer or supplier contracts, pricing policies, operational methods, marketing plans or strategies, business plans and other business affairs of the Company, its affiliates or MDI learned by him heretofore or hereafter unless the same is available, other than as a result of prohibited disclosure, from public documents and sources generally available to persons in the industry of the Company, or as are required to be disclosed by law or subpoena. The knowledge and information which Employee has or shall acquire and develop during his employment by the Company respecting such secret, confidential or proprietary information shall be held by him in trust for the sole benefit of the Company, its affiliates and their respective successors and assigns. The provisions of this Section 11(c) shall apply regardless of whether such information is or was developed, devised or otherwise created in whole or in part by Employee's efforts. This Section 11(c) shall survive any termination or expiration of this Agreement.

(d) Property of the Company. All written materials, memoranda, notes, lists, records and other documents or papers (and all copies thereof) and all other materials, however stored or recorded, including such items stored in computer memories, microfiche or by any other means, made or compiled by or on behalf of Employee or coming into his possession, containing any confidential, proprietary or trade secret information concerning the business or affairs of the Company, are and shall be the Company's property and shall be delivered to the Company promptly upon the termination or expiration of Employee's employment or at any other time upon request of the Company.

12. Termination by the Company.

(a) Termination For Cause. If Employee shall breach any fiduciary duty to the Company or any of its affiliates, fail or refuse to perform the duties required of him hereunder (as determined in accordance with Section 3), willfully violate any law, rule or regulation (other than traffic violations or similar misdemeanor offenses), or negligently or intentionally cause material damage to the relations of the Company or any affiliate thereof with customers or suppliers, or misappropriate or disclose proprietary information or confidential records of the Company or any of its affiliates, or if Employee shall exhibit gross negligence, personal dishonesty, incompetence, malfeasance, or personal impropriety in his performance of his duties or obligations to the Company, or for other good cause, the Company may at its option immediately terminate this Agreement by giving written notice to Employee. The Company may also terminate this Agreement immediately at its option by giving written notice to Employee in the event that the operation of the Aerospace Division does not achieve annual earnings before interest and taxes in any year during the term hereof in an amount equal to or greater than the amount for such year set forth on the line entitled "Operating Income" on Exhibit A attached hereto; provided, however, that in the event that a revised Budget is agreed to as set forth in Section 4(b), the Company will have a right to terminate this Agreement in the event that the annual earnings before interest and taxes of the Aerospace Division in any year is not equal to or greater than the amount therefor set forth in such revised Budget. The Company may also terminate this Agreement immediately at its option by giving written notice to Employee in the event that Employee and the CEO or Board fail to agree to a revised Budget within 60 days after a request for such revised Budget was made by either Employee, the CEO or the Board. If Employee is terminated under this Section 12(a), Employee shall no longer be entitled to any compensation or other benefits hereunder after such termination for cause.

(b) Termination for Convenience. In the event that the Company terminates Employee's employment hereunder other than pursuant to the provisions of Sections 2 or 12(a) above, the Company shall (x) continue to pay Employee his base salary, in the installments set forth in Section 4(a) hereof, until the earlier of (i) the first anniversary of the date of termination, (ii) the expiration of the Term under Section 2, or (iii) the date Employee commences other employment or conducting a new business or venture; and (y) pay Employee any declared but unpaid bonus compensation and any unreimbursed business expenses which, in each case, are outstanding obligations of the Company on the date the Company notifies Employee of his termination under this Section 12(b) (or on the date of delivery of the Employee Termination Notice pursuant to Section 13, if applicable). The Company shall have no right to terminate Employee's employment under this Section 12(b) prior to the first anniversary of the

Closing Date, unless the Company continues to pay Employee his base salary, in the installments forth in Section 4(a) hereof, until the earlier of (i) the Second Anniversary Date or (ii) the date Employee commences other employment or conducting a new business or venture. If Employee is terminated under this Section 12(b), Employee shall be entitled to no other compensation or benefits whatsoever except as expressly set forth herein.

13. Termination by Employee. Upon delivery of written notice of termination to the Company (the "Employee Termination Notice"), Employee may terminate this Agreement and cancel his obligations to the Company hereunder upon the occurrence and continuance of any of the following events: (i) the Company shall wrongfully default in the due and punctual payment of Employee's base salary or (ii) the Company shall have breached any other material agreement contained in this Agreement, and, in each case, such default or breach shall continue unremedied for more than 30 business days after written notice thereof shall have been given by Employee to the Company. A termination by Employee pursuant to this Section 13 shall be deemed a termination by the Company for convenience under Section 12(b) hereof as of the date of delivery of the Employee Termination Notice, and Employee shall be entitled to no other compensation or benefits whatsoever after the date of delivery thereof, except as expressly set forth in Section 12(b).

14. Further Cooperation. Upon termination of Employee's employment hereunder pursuant to Sections 12 or 13 hereof, Employee agrees to cooperate with the Company and its management for a period of up to thirty days following the termination date at the Company's request to assist the Company in the transition to a new management of the Aerospace Division.

15. Equitable Relief. Employee acknowledges that the services to be rendered by him hereunder are of a special, unique, original and intellectual character which give them peculiar value. The Company and Employee agree that a monetary remedy for breach of the agreements set forth herein shall be inadequate, and will be impracticable and extremely difficult to prove, and further agree that such a breach will cause the Company irreparable harm, and that, in addition to any other rights or remedies available to the Company, the Company is entitled to temporary and permanent injunctive relief without the necessity of proving actual damages. Further, Employee expressly agrees that the covenants contained in Sections 11(a) through 11(d) are reasonable and necessary for the protection of the Company and its affiliates. It is the intention of the Company and Employee that such Sections 11(a) through 11(d) be enforceable to the maximum extent permitted by law and, to that end, the Company and Employee understand and agree that such provisions may be modified by a court, acting in law or in equity, to ensure the enforceability thereof. The provisions of

this Agreement shall each be deemed severable, and the validity or unenforceability of any one or more of the provisions herein shall not effect the validity or enforceability of the other provisions.

16. Assignment. This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns. This Agreement is personal to Employee and shall not be assigned, transferred, hypothecated or pledged or in any way encumbered by Employee and Employee may not assign all or any part of his interest under this Agreement without the prior written consent of the Company.

17. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, notwithstanding any choice of law principles or rules of such State or any other State to the contrary.

18. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. The headings of the Sections of this Agreement are inserted for convenience only and shall not constitute a part hereof.

19. Entire Agreement. This Agreement contains the entire agreement between the parties with respect to the employment of Employee by the Company and supersedes all prior and contemporaneous agreements, representations and understandings of the parties. No modification, amendment, supplement or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto and executed by both parties.

20. Severability. To the extent that the terms set forth in this Agreement or any word, phrase, clause or sentence is found to be illegal or unenforceable for any reason, the balance of this Agreement shall not be affected thereby, such balance being construed as severable and independent, and the remaining portion of this Agreement shall remain in full force and effect as if this Agreement had been executed with the invalid provision eliminated.

21. Notices. All notices, requests and other communications under this Agreement shall be in writing and shall be deemed to have been delivered and received five days after having been mailed in a general or branch post office and enclosed in a registered or certified post-paid envelope; one day after having been sent by overnight courier for arrival on a business day and otherwise on the next succeeding business day thereafter; when personally delivered or when sent by facsimile communications equipment of the sending party on a business day and otherwise on the next succeeding business day; and, in each

case, addressed to the respective parties at the addresses stated below or to such other changed addresses that the parties may have fixed by notice in accordance herewith.

If to the Company:

Puroflow Incorporated
1331 Tenth Street
Santa Monica, California 90404
Attention: George Solymar
Chief Executive Officer
Telephone: (310) 450-6461
Telecopier: (310) 450-4598

If to Employee:

Joseph B. Jasso
1069 Kings Court
Canton, MI 48188
Telephone: (313) 981-5407
Telecopier: (313) 981-4740

22. Waiver. The failure to enforce at any time any of the provisions of this Agreement, or to require at any time performance by the other party of any of the provisions hereof, shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement or any part hereof, or the right of either party thereafter to enforce each and every provision in accordance with the terms of this Agreement. A waiver of any term or condition of this Agreement by any party shall only be effective if in writing and shall not be construed as a waiver of any subsequent breach or failure of the same term or condition, or a waiver of any other term or condition of this Agreement.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first set forth above.

THE COMPANY:

Puroflow Incorporated

By: _____
George Solymar
Chief Executive Officer

EMPLOYEE:

_____
Joseph B. Jasso

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed and on its behalf by the undersigned thereto, duly authorized.

PUROFLOW INCORPORATED

By _____
George Solymar
President and Chairman of the Board

By _____
Benjamin T. Picazo
Treasurer and Principal Financial Officer

Date: June 12, 1992